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CalFed Widens Insurance Pro

Thrift's Move Comes in Wake of Industry Shakeout

By NINA EASTON
West Coast Bureau

LOS ANGELES — CalFed Inc., the nation's fifth largest nondiversified thrift holding company, has formed a syndicate on the Chicago Insurance Exchange to sell property and casualty insurance coverage in partnership with a Lloyd's of London underwriter.

The move, which will be revealed to shareholders in CalFed's third-quarter report this week, is a rare one in the thrift industry. Property and casualty insurance is a risky business, and CalFed's action comes in the wake of a massive shakeout in that industry.

"I believe the risks are controllable by the underwriting, and the returns are very good," George P. Rutland, CalFed's president and chief executive officer, said in an interview. CalFed owns California Federal Savings, the nation's fourth largest S&L.

For CalFed, which has more than $20 billion in assets, the move signals a long-awaited further reach into the insurance business. Since 1984, the thrift concern has been in the life insurance business through Beneficial Standard Life Insurance Co., which operates in 42 states.

CalFed's Chicago deal is "unusual," said Allan Bortel, a thrift analyst with Shearson Lehman Brothers Inc. in San Francisco. "But it is not inconsistent with their long-term strategy."

CalFed's entry into the insurance business, moreover, is not expected to stop at Chicago. Mr. Rutland confirmed that, since forming the Chicago syndicate, CalFed has been eyeing the London insurance market.

"Yes, we are exploring ways in which we can do more business of a similar nature, and London is a possibility," Mr. Rutland said.

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See a Letup In '80s Slide

By ANDREA BENNETT
Midwest Bureau

NASHVILLE — After watching their financial condition decline for most of the 1980s, farm lenders think they see the first letup in that slide. Although no one expects the problems to disappear, in the coming year for the first time they are not expected to get much worse.

"The expectation is that farm loan problems continue to be serious, but are not getting much worse," William McD. Herr, a professor of agribusiness economics at Southern Illinois University, Carbondale, Ill., said at the American Bankers Association's annual agricultural bankers conference here.

According to preliminary results of a survey of about 600 farm bankers con-

Letup: Page 23 ➡

One of Biggest Bank Software Vendors Even Bigger in Service

'We are heavily involved in planning, installation, and conversions.'

Jon T. Blankmeyer
President
Software Alliance

By DAVID O. TYSON

BERKELEY, Calif. — Unlike its competitors in the market for core application systems for big banks, Software Alliance Inc. has no Wall Street analysts writing reviews about it.

The company differs from competitors in other respects, too. It gets more revenue from services than from software sales, markets only a few products of its own, and spends other people's money on development.

Analysts leave it alone because Software Alliance is a subsidiary of the privately owned Teknekron Industries Inc. and neither firm's stock trades publicly. Both are based in this university town overlooking San Francisco Bay.

Only three years old as a stand-alone entity, the company may be unknown to investors and ignored by analysts. But bankers know it: Software Alliance has systems installed at 90 bank sites and ranks second behind Hogan Systems Inc. in primary application software in banks with at least $1 billion in assets.

Jon T. Blankmeyer, the president, says Software Alliance products are operating in six of the 10 largest banks in the country.

"We are by far the leader in terms of installed full deposit systems," he said in an

Software: Page 22 ➡

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BACKPAGE

First Union Dangles Carrots in Front of All Employees, Not Just Executives, to Get the Most Out of Its Team

By PETER MANTIUS

ATLANTA — When Edward E. Crutchfield Jr. was a junior officer at First Union Corp., Charlotte, N.C., the bond trading department didn't want to let him go because he was making too much money for the company.

His annual salary was $7,200 and he wasn't eligible for incentive pay. He wanted out.

Years later, after Mr. Crutchfield had risen to president of First Union National Bank, a bond trader who earned $100,000 a year made $12 million for the bank. Mr. Crutchfield called the man into his office and paid him a $600,000 bonus.

Today, First Union Corp. probably relies on incentive pay more than any other major U.S. bank holding company, said Mr. Crutchfield, now chairman and chief executive officer of the company. While most banks offer incentives to executives, Mr. Crutchfield said First Union wants to put everyone in the company on incentives.

"We're not a job-for-life company," he said. "If you go for two years without a bonus, you're probably about to be fired."

Emphasis on incentives apparently is paying off.

For the first nine months of 1986, First Union was No. 1 among big Southeast banking companies in return on equity (19.45%), return on assets (1.25%), loan chargeoffs to net loans (.19%), and allowance for loan losses to loans (1.73%).

That performance came in the midst of an 18-month merger binge that has more than tripled the Charlotte company's assets and given it big shares of the markets in Florida, Georgia, and South Carolina.

In early 1985, First Union was North Carolina's third largest banking company with assets of about $7 billion. If all pending acquisitions were complete, the company now would have assets of $25 billion.

We're not a job-for-life company. If you go for two years without a bonus, you're probably about to be fired.

— Edward E. Crutchfield Jr.
Chairman, Chief Executive Officer
First Union Corp.

Its main acquisitions have been the Northwestern Financial Corp., Greensboro, N.C., $3 billion in assets; Atlantic Bancorp., Jacksonville, Fla., $4.6 billion in assets; First Bankers Corporation of Florida, Pompano Beach, $1.3 billion in assets; Southern Bancorp., Greenville, S.C.; $1.1 billion in assets; and First Railroad & Banking Company of Georgia, Augusta, $3.8 billion in assets.

Immediately after closing the First Railroad deal earlier this month, First Union renamed the company First Union Corporation of Georgia and shifted its headquarters from Augusta to Atlanta.

To oversee the far-flung parent company, Mr. Crutchfield relies on a six-man management committee with four representatives from North Carolina and one each from Florida and Georgia.

Mr. Crutchfield said he expected the pace of merger activity in the Southeast to slow down now because the stock prices of the potential acquirers are about 20% below their 1986 highs.

But he said unrestricted interstate banking is probably only three to five years away. When it comes, he said, there may be mergers between regions "on a scale that could rival the big oil mergers."

Although big southeastern banks have been rumored to be considering buying struggling Texas banks, Mr. Crutchfield said First Union couldn't legally complete such a deal.

Texas law permits acquisitions by banks from anywhere in the country. However, under laws in North Carolina, South Carolina, Georgia, and Florida, banks that have taken advantage of that region's reciprocal laws are prohibited from expanding outside the region, according to some legal experts. Before any southeastern bank could buy a Texas bank, laws would have to be amended in each state in which a potential southeastern acquirer operates.

In an interview after a speech to the Southern Business Administration Association in Atlanta, Mr. Crutchfield said he wasn't actively trying to get the southeastern laws amended, but he said he wouldn't be surprised to see the changes made early next year.

Mr. Crutchfield said that while southeastern interstate banking laws were designed to protect the region's banks from potential acquirers in New York, California, and Texas, "we may have built the walls so high we can't get out."

He said First Union is considering moves into the insurance and consumer finance industries and said it had considered, then rejected, the idea of bidding for Charles Schwab & Co., BankAmerica Corp.'s discount brokerage subsidiary.

Meanwhile, the company is trying to get its group of products out to its newly acquired subsidiaries. The Georgia company will beef up its leasing and discount brokerage business and a television advertisement used in Florida will soon begin airing in Georgia. ■

Stock Thrifts Turn to Compensation Plans to Keep Managers

By JEFFREY MARSHALL

Publicly held thrifts are turning to increasingly sophisticated compensation strategies — including incentive plans — to reward and retain key managers, says a California-based management consulting group that has published a new survey of compensation at stock-issuing thrifts.

Stock options are among the incentive methods that public companies of all kinds have turned to in recent years, but mutually owned associations have no recourse to such strategies.

"It's fair to say that stock companies have options open to them that mutual companies do not," said Jon Rosenbaum, an associate at MCS Associates and the author of the survey.

MCS, based in Newport Beach, Calif., has a number of major thrift clients. It released its findings on Nov. 10 in San Francisco at the annual convention of the U.S. League of Savings Institutions.

In the survey, which MCS says is the first of its kind, composite compensation strategies and figures were compiled for 160 publicly held thrifts. Mr. Rosenbaum said that there may be as many as 220 such thrifts, but that some companies are traded only regionally or "simply don't show up in the literature."

Data for the survey covers the years 1984 and 1985 and was obtained from proxy statements.

The U.S. League publishes a comprehensive study of industry compensation practices but does not separate out publicly traded thrifts. Mr. Rosenbaum said MCS hopes to update this new survey each year.

Chief executives were the biggest beneficiaries of their companies' largesse, the study found. Their cash compensation rose an average of 14% in 1985 over the previous year. Lesser executives fared less well, with the second highest paid executives at the largest thrifts surveyed — those with $2.5 billion or more in assets — actually getting 1% less, on average, than in 1985.

Cash Compensation of Highest Paid Thrift Executives

Thrifts Grouped by Total Assets	Under $200M 1985	Change 1984-5	$200M to $499M 1985	Change 1984-5	$500M to $999M 1985	Change 1984-5	$1B to 2.499B 1985	Change 1984-5	$2.5B & over 1985	Change 1984-5
Highest Paid Executive	$142,106	NA	$287,901	NA	$289,193	NA	$905,190	NA	$3.96M	NA
Highest Paid Executive, Median	82,482	9%	130,288	31%	157,341	9%	232,588	13%	372,484	12%
2d Highest Paid, Median	NA		88,704	15%	103,592	15%	160,941	18%	252,831	-1%
3d Highest Paid, Median	NA		76,031	-7%	87,398	14%	111,600	13%	180,161	27%
Avg. Total Assets (in thousands)	168,227	13%	334,411	12%	733,053	13%	1,581,579	15%	7,550,951	8%
Number of thrifts	6		28		44		42		40	

Source: MCS Associates.

Total 1985 cash compensation for the highest paid executive in each size category ranged from $142,106 in the group with less than $200 million in assets to $3.96 million in the group with more than $2.5 billion. Eight percent of the institutions paid their top executive $500,000 or more last year, and 35% paid the top person $250,000 or more.

While 95% of thrifts are using incentive compensation, an increasing number are using a combination of annual and long-term plans. That growth was most evident at the largest thrifts, where 72.5% are using some kind of combination; in contrast, only 46.4% of thrifts with between $200 million and $499 million in assets used such a combination.

The largest thrifts also were most likely to tie incentive payments to specific performance and strategic goals, while the smallest group was most likely to make awards that were not linked to any concrete criteria, MCS found.

This latter type of plan, identified in the survey as a discretionary plan, proved surprisingly popular at thrifts with between $1 billion and $2.5 billion, however. Nineteen percent of these thrifts used that form, more than any other type of plan.

Mr. Rosenbaum said he had no ready explanation for this anomaly, adding that "it's a bit unusual in terms of the trends."

While three-fourths of the thrifts in the survey paid cash for annual awards, only 10% — 19% more than in 1984 — were using a combination of cash and elective deferral of cash payments.

In other findings:

• Stock options plans are the most popular form of long-term incentive plan, with 88.8% of all companies using some form of stock options in 1985. At the largest thrifts, the figure was 97.5%.

• Use of stock appreciation rights in conjunction with stock options is becoming increasingly popular. Use of such plans rose to 43.6% of all thrifts in the survey last year, up 17.6% from 1984.

• Reflecting the merger mania sweeping the nation, an increasing number of thrift executives are being given employment contracts with takeover clauses. The percentage of thrifts offering such arrangements to several top executives rose from 26.4% in 1984 to 43.1% last year. For chief executives, the increase was 11.1%, up to 48.8%.

• More and more executives are opting for cash payments instead of deferred stock options. That phenomenon, a result of the 1986 tax-reform law, runs counter to the trend in recent years to defer income, Mr. Rosenbaum said. ■

Strategic Dates
July 1, 1987

MARYLAND LEGISLATION: Effective today, bank holding companies from Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Pennsylvania, South Carolina, and Tennessee will be permitted to acquire Maryland banks on a reciprocal basis.